

Commissioners of Ridgely

Special Meeting

June 30, 2008

There was a Special Meeting held in the Ridgely House on the above date at 7:00 pm. Chuck Hunter, President; Linda Epperly-Glover, Commissioner; Kathy Smith, Commissioner; Joe Mangini, Town Manager; Carol Balderson, Town Clerk; Jason Gidge, CPA – Trice Geary & Myers; and Dan Divilio, Times Record were present. The following folks were also present: Joanne Stepp, Leo Stepp, Dale Mumford, Betty J. Mumford, Cathy Schwab, Rick Schwab, Archie Carroll, and Nancy Gearhart. President Hunter called the meeting to order and introduced Jason Gidge, CPA, who will make a presentation later.

Joe said there are three items on the agenda tonight for adoption by the Commissioners – 1) **Ordinance No. 309** – “An Ordinance of the Commissioners of Ridgely to Amend the Town of Ridgely’s General Fund and Water/Sewer Enterprise Funds Operating and Capital Improvement Project Budgets for Fiscal Year Ending June 30, 2008” – Joe reported this has been on the agenda for several months now. The administration has recommended that the budget be adopted as amended mainly to include, or to make the changes necessary on the revenue. Some went up, much went down, mainly due to the MDE issue with impact fees. There have been no major changes since it was last brought up. One thing that is included now are the Developer Impact Fee carryovers for the last couple of years for revenue, mainly due to the expenses incurred for capital projects for WWTP and water tower.

President Hunter made a motion to adopt Ord. No. 309, seconded by Commissioner Epperly-Glover.

Commissioner Smith asked Jason Gidge (Town Auditor) why the budget should be amended.

Jason replied if large numbers change due to development that was anticipated but doesn’t happen you should amend. Not for small items. This does not affect your actual figures.

Nancy asked about the \$1.5 million loan.

Joe said that came out because it won’t be done until FY 2009. It’s in the new budget.

President Hunter and Commissioner Epperly-Glover approved Ord. No. 309,

Commissioner Smith abstained. Motion passed.

2) **Ordinance No. 310** – “An Ordinance of the Commissioners of Ridgely to Adopt the Town of Ridgely’s General Fund and Water/Sewer Enterprise Funds Operating and Capital Improvement Project Budgets for Fiscal Year Ending June 30, 2009” – Joe said this budget was introduced on June 2. There was a public hearing on June 16. The primary things on this budget are there are no recommendations for a tax rate increase or increases in water and sewer fees. There is a major reduction of about \$50,000 in health insurance because we are going to a new health insurance plan. Pension cost has gone down from 8.74% last year to 7.37%. The administration recommended refinancing the street loan to a line of credit with Provident State Bank, increasing by \$100,000 to pay

over \$40,000 for some work on Walnut Street, a vehicle for public works, etc. The payback for that would be through the highway user fees (budgeted at about \$159,000). The loan would be about \$50,000/yr. for no more than 4 years.

Parks - Joe went on to say, we are putting together the Martin Sutton Park program which we have a grant for. We are also very heavy into the Rails to Trails project. There is \$1500 in this budget for the town's portion to do the interior of the old telephone building.

Water/Sewer – Joe reported the big ticket item is the WWTP Upgrade. There is a pre-bid meeting scheduled for July 2 and bids are expected July 16. Should know just how much it is going to cost by the end of July.

There are four banks who have approved the town for a loan that are competing for our business. That decision has not been made; it should be on the agenda for July 14.

Joe said we are still waiting for word from the county on the water tower. We did put about \$10,000 in this budget for engineering. We have a contract with our engineers to do the storage tank. We have stopped that project for the time being. We are not spending any money on the project until we hear from the county.

Joe said the water tank maintenance program has been costing around \$25,000-\$26,000/yr. The new budget calls for \$8701 in 2009.

There is a request from the administration for a 3% pay increase for all employees except the Town Manager.

General Fund Revenues are \$1,427,361, expenses are \$1,412,239 leaving a surplus of \$15,122 at the present time.

Sewer Fund Revenue is \$1,905,000, expenses are \$1,827,793 leaving a surplus of \$84,207.

Water Fund Revenue is \$293,000, expenses are \$266,744 leaving a surplus of \$26,256.

President Hunter said concerning some questions at public meetings – the employees will get a 3% pay increase. The 2% merit suggested is not going to happen now. The Commissioners have evaluations on all the employees. They would like to see a more streamlined, specific evaluation done again in 3 to 6 months. During that time there will also be personal contact individually with each employee concerning their current evaluation and what they expect in the future.

Commissioner Smith asked about the addition of overtime expense.

Joe said he forgot to include it in the original budget – it is \$5,000 each in water, sewer, and general fund. For office staff overtime is evening meetings.

Dale Mumford asked about there being no depreciation shown in the budget for water and sewer-asked auditor.

Dale also asked about \$18,000 for cell phones. This should not be expended until questions are resolved.

President Hunter said there were several expense items the Commissioners discussed at length, one of them being cell phone use. Another item is heat/AC. The school board is hiring an energy czar. Gasoline consumption is another item discussed at length.

Jason Gidge said you don't have to budget for depreciation if you put capital costs for equipment in the budget. You have to allow for the expense one way or the other.

Nancy asked about salaries – 3% for everyone, including police?

Yes.

Nancy asked about the purchase of a truck for public works.

President Hunter said they talked about it at length and came up with some options. They talked about Robin using another vehicle, there is an extra police car. There has not been a decision yet on the plow.

Nancy asked about the county EDC contribution, it was cut from \$2000 to \$1000.

President Hunter said they agreed to leave it at \$1000. Support from county EDC was questioned. Feel they lead businesses to Denton and Federalsburg.

Joe said employees health insurance was cut down, some other things needed to be cut too.

President Hunter said he talked to County Commissioner Jack Cole today. He said they are emphatically behind the Tech Park project; nothing has changed with the County's administrative changes.

Nancy asked if we would still be okay with the MDE loan of \$1.5 million with the DRRRA, interest rate increase?

Joe said the interest rate for the banks went up due to taxed borrowing. Hasn't heard from MDE on this yet.

Nancy said there are still a lot of unknowns, and the Commissioners have to agree to all of this tonight.

Joe explained that the \$1.5 million is in the budget, but the Commissioners have to approve it separately. They have to approve major expenditures over a certain amount of money, like the pickup for public works.

Nancy said she talked to a farmer this weekend. He feels the town could buy more land and irrigate with the same style system being used now for a lot less money.

President Hunter adjourned Commissioners to Executive Session – 7:55 to 8:05 pm.

President Hunter made a motion to approve the FY2009 Budget, seconded by Commissioner Epperly-Glover. Unanimously passed.

Joe read **Resolution R-06-08** – “A Resolution of the Commissioners of Ridgely to Establish a Tax Anticipation Line of Credit With Centreville National Bank” - \$100,000 – To meet certain expenses due the first of July - Certain expenses were incurred in preparation for the WWTP Phase One Upgrade that have reduced the Town's cash reserves. This LOC will be reimbursed with FY 2009 real property tax revenue.

President Hunter made a motion to approve Resolution R-06-08, seconded by Commissioner Epperly-Glover. Unanimously passed.

Joe talked about sponsoring a town function and encouraging community groups, i.e., Lions Club, RVFD, etc. to share in that. Had thought about a summer concert series.

He attended one that the County did, Noon Tunes. The singer was phenomenal. He has her on hold for August 23. The fee for the singer is \$1500, but wants to fund that through donations, no town funds. There is a grant fund in the County to provide funds for this. He will ask Joanne to pursue it if the Commissioners approve.

Jason Gidge – Trice Geary & Myers – He talked about SAS (Statements of Auditing Standards). This is what they follow as our auditors. He said there is a packet of these #102-#114. It changes the method they use to audit us. They have always used the Substantive Method of Auditing. They would come in, the Town would say we bought

these assets, they would randomly ask to see the invoices and checks.

This new method is Risk Based Auditing. They come in and document and evaluate all of the internal controls, the processes to buy an asset or spend money out. They look at that and assess the government and where the risks are. This will naturally increase the fees; this will be approximately 45% more work. About half of the work will be done by them and half by Joe and Carol. They split the work with the town, some of it has to be done by the auditors. They anticipate a 20 to 30% increase in the audit fee.

Jason went on to say, the way this works is there is a front load every 3 years. The next 2 years will be updated and in 2011 it has to be re-documented.

Rick Schwab asked what the benefit is from all of this.

Jason said like most things that come from Congress, there is none, but there is no choice. This is all coming from Enron and World Com. They took the large public entities first, and it funnels down.

They will come in and attack the risks, looking at where things come in, where they can be manipulated, where controls are lacking, segregation of duties, etc. Where the benefit comes in is when you see and stop (like Wicomico Co. did – the selling of diesel fuel to a local entity and getting your name in the newspaper). The real benefit you will never see. They check the Town's checks and balances and make sure from a risk side, it can't happen; not coming in afterward and seeing it happen.

Jason said SAS #102 and #103 are definitions. They used to say you should do this, now they say you must. #104 thru #111 are the governing standards. #112 thru #114 are new letters. Every year they give the council an audit communication package. They look at what has happened in the town, obviously, if they found anything really wrong they would report it. They were never required to analyze these in the past, though they would make sure no one was walking out with cash. They would give comments or offer suggestions for improvements. There was an optional letter, that has been changed. Now there is the 112 letter and the 114 letter. The 112 letter is internal control and significant deficiency letter. Since he is now required to analyze internal control, he is required to write a nasty letter about every loophole that is not closed. 1) Control Deficiency – small area, 2) Significant Deficiency – more than a remote chance something could happen of a material nature, 3) Material Weakness – something is happening, or could be happening, of a material nature. Risk of material misstatement concerns not having accurate numbers as far as GAAP is concerned.

Jason said the smaller towns rely on the auditors to do certain things. They come in and make some adjustments. If they do that and it's a material adjustment, that's actually a risk of a material misstatement; because if they didn't come in to do the audit the numbers used could have been materially wrong. This could be depreciation figures, etc., it's not that the money is gone.

Joe said there are a couple of issues they have asked Jason to talk about: 1) G. Fund deficit last year - \$59,937 and 2) Due to/Due from of \$162,716 (last year). FY2006 was higher – G. Fund owes utility fund.

Jason said when the reports go in to the State and they see you with a deficit they want a plan to rectify it. We had a series of events which led up to this deficit, revenues did not come in, etc. It was funded by the utility fund.

Jason said we need to work out a plan to clear this out. There is nothing in accounting that says you can't have a "due to/due from" between funds, but it is not prudent practice to be funding the other funds. If the general fund needs funds, cash should be transferred from the utility funds. The Board would have to make a decision to do this. This could fix both issues and you start over.

Jason said we need to better analyze the budget. In his opinion, part of this resulted from the trash fee being taken away. With the growth in real estate the Town was getting a lot of revenue in the general fund and it was expected to keep coming. Joe wanted to do the citizens a favor, so the trash fee was taken away. The next year those fees dropped off to nothing.

Joe said he also strongly pushed for a decrease in real property taxes by 2 cents (about \$20,000/yr.). Trash fees were about \$70,000/yr. He takes full responsibility for that, he felt it was the right thing to do. It is because of these things that we have made changes and cuts in the budget for FY09.

Commissioner Smith asked about the \$1.5 million loan and pay back...

Jason said when you have to do something you figure out how to do it. You look at how much you are spending and where you can make cuts. A budget is an expectation of what is expected to happen. When you can't trim the fat anymore you have to raise fees or taxes.

Dale Mumford said he thinks we should hold off on the loan for 6 months, and see what happens. Folks are having hard times now.

Joe said 1) we cannot accept or build any new units in this town right now, except for those already in the works. 2) At some point in time, if we didn't do this, we would have to go to emergency discharge which could, or could not, be granted by the State. There could also be fines. 3) It is the feeling that bidding this project now may mean lower bids because of the economy. 4) We have an agreement with MDE to do this. 5) Also, the Town has committed to Caroline Co. a certain number of gallons of allocation for the Tech Park. There is a letter that the Commissioners, hopefully, will sign and return to DBED. 36,000 ga. will have to be reserved for the County.

President Hunter made a motion to adjourn at 9:15 pm, seconded by Commissioner Epperly-Glover.

Respectfully submitted,

Carol A. Balderson
Clerk

